

## VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

### FIRST AMENDMENT

THIS FIRST AMENDMENT TO THE NOVEMBER 30, 2017 CONTRACT (the "Contract") by and between the VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY, an independent instrumentality of the Government of the Virgin Islands ("Government"), (also referred to herein as "VIPFA"), and ERNST & YOUNG PUERTO RICO LLC (also referred to herein as "Consultant"), jointly referred to herein as the "Parties".

#### WITNESSETH:

WHEREAS, the November 30, 2017 Contract between VIPFA and Ernst & Young Puerto Rico LLC provides for Hurricane Financial Recovery services and coordination with the Federal Emergency Management Agency ("FEMA") for a term of five (5) years at an annual compensation in aggregate "not to exceed" (NTE) Five Million Dollars (\$5,000,000.00), effective upon ratification of the Contract; and

WHEREAS, the Contract was approved by the Governing Board of VIPFA on November 29, 2017 and ratified on December 6, 2017; and

WHEREAS, within the first three months into the Contract the Consultant has almost exhausted the \$5 Million compensation cap as a result of the increase in the demands from the Government's aggressive campaign to identify, access, secure and manage a larger percentage of the available federal resources and funding from FEMA and other federal agencies; and

WHEREAS, the Governing Board has authorized the increased compensation cap on the Contract from Five Million Dollars (\$5,000,000.00) to an amount NTE Ten Million Dollars (\$10,000,000.00) and amended the Contract Term "to remain in effect until the earlier of (i) the completion of the Services or (ii) the date falling five (5) years following the effective date of this Agreement, which date may be extended in two year increments by mutual agreement of the Parties" by Resolution 18-04.

NOW THEREFORE, in consideration of the mutual covenants herein contained, and intending to be legally bound by this written instrument, the parties hereto do covenant and agree to amend Addendum II, Compensation and paragraph 3 of the Contract as follows:

1. Paragraph 3 is amended to increase the NTE amount of \$5 Million Dollars under the Contract to a NTE amount of Ten Million Dollars (\$10,000,000.00) to allow service levels to continue at either the current or adjusted levels for the Government of the Virgin Islands. The other terms in Paragraph 3 shall remain the same.



2. Addendum II – Terms of Compensation & Rate Schedule is amended to increase the NTE amount of \$5 Million Dollars under the Contract to a NTE amount of Ten Million Dollars (\$10,000,000.00) to allow service levels to continue at either the current or adjusted levels for the Government of the Virgin Islands. As a result, the Rate Schedule is adjusted to a fixed monthly fee in a total amount of [REDACTED] per month for the scope of services in the Addendum I, as amended by the attached Scope of Work around Community Disaster Loans (“SOW”). The fixed monthly fee will be adjusted downward for any month in which a particular scope of service is not performed during the given month to an amount agreeable between the Parties. All other terms in Addendum II shall remain the same.
3. The Term of the Contract as stated in Paragraph 2 of the Contract is amended to read as follows: “This Agreement shall become effective as of the date provided in Section 23 hereof, and unless sooner terminated in accordance with Paragraph 20 (Termination) or at such earlier or later date as the parties agree in writing by Addendum to this Contract, shall remain in effect until the earlier of (i) the completion of the Services or (ii) the date falling five (5) years following the effective date of this Contract which date may be extended in two year increments by mutual agreement of the Parties, to a maximum of nine (9) years following the effective date of this Contract.”
4. Addendum I of the Contract is amended to provide further details on the services already being provided. Addendum I shall be replaced with Scope of Work around Community Disaster Loans (“SOW”) attached hereto.
5. This First Amendment to the Contract shall become effective immediately, and shall be applied to all work performed since February 1, 2018, and continue in effect until the expiration of the Contract. This Contract Amendment is being reimbursed through administrative allocations from federal programs.
6. This First Amendment shall be attached to and made a part of the November 30, 2017 Contract as Exhibit A.

IN WITNESS WHEREOF, the Parties have hereunder set their hands.

WITNESSES:

[Redacted]

VIRGIN ISLANDS PUBLIC FINANCE  
AUTHORITY

By

[Redacted]

3.23.18  
Date

[Redacted]

ERNST & YOUNG PUERTO RICO LLC

By

[Redacted]

3/23/18  
Date

*[Handwritten signature]*

*[Handwritten signature]*





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### **Scope of Work around Community Disaster Loans ("SOW")**

This amendment, dated March [XXX], 2018 (this "Amendment"), amends the Agreement dated November 17, 2017, (the "Original Agreement" and as modified by this Amendment, the "Agreement") between Ernst & Young Puerto Rico LLC ("we" or "EY") and the Virgin Islands Public Finance VIPFA, ("you", "USVI", "VIPFA", or the "Client").

Except as otherwise set forth in this Amendment, this Amendment incorporates by reference, and is deemed to be a part of the Agreement. The additional terms and conditions of this Amendment shall apply only to the advisory Services covered by this Amendment and not to Services covered by any other Amendment pursuant to the Agreement. Capitalized terms used, but not otherwise defined, in this SOW shall have the meanings in the Agreement, and references in the Agreement to "you", "USVI", "VIPFA", or "Client" shall be deemed references to you.

If you ask us to begin work on the areas incorporated herein before you execute and return this SOW to us, you will be deemed to have agreed to its terms. As such, applicable services performed below since February 1, 2018 will be covered by this Agreement.

#### **Scope of Services**

This Amendment more clearly defines the services EY will provide to the USVI under Track 3 (grant application and financial management), Subpart 7, of the Agreement.

To clarify and remove all doubt, the specific purpose of the work described hereunder is more clearly defining the advisory needs for the USVI in regards to Community Disaster Loans.

#### **Scope Area #1: Advise on Community Disaster Loans (CDL)**

- Advise the USVI government, Roy Lester Schneider Hospital, Governor Juan F. Luis Hospital and Medical Center, Virgin Islands Water and Power Authority, and other governmental agencies and instrumentalities on CDL related matters (note: In this capacity, EY will not serve as a registered Municipal Financial Advisor. We will, however, liaise with VIPFA's existing Municipal Financial Advisor).
- Advise USVI staff on the reconciliation between actual CDL expenditures and draw request submissions made to the federal government, including the USVI staff's tracking of CDL related drawdowns and disbursements.
- Advise USVI staff on the preparation of financial data and other applicable materials requested by the federal government to authorize future CDL draws.
- Advise USVI staff on compliance requirements to meet the terms and conditions enumerated in USVI CDL documentation, including weekly and monthly reporting needs.



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- Advise USVI staff on interactions between the USVI and the federal government, particularly FEMA and U.S. Treasury, on relevant matters related to Community Disaster Loans and other matters as directed by USVI staff. Participate in calls and meetings with federal officials as directed by USVI staff.
- Advise USVI staff on interactions with other branches of the USVI government as requested by USVI staff. Participate in calls and meetings with USVI government officials as directed by USVI staff.
- Liaise with the USVI's legal advisor (Hawkins Delafield & Wood LLP), financial advisor (Capital Markets Advisors), revenue forecasting advisor (IHS Markit), disaster recovery advisor (Whitt O'Briens), USVI Water and Power Authority financial advisor (Sustainable Capital Advisors), and other advisors as directed by USVI Staff to understand the issues arising out of their work and propose recommendations on options available to the USVI.

#### **Scope Area #2: Cash Flow Forecasting**

- Advise the USVI, its instrumentalities and public corporations with the USVI cash flow forecasting process for the USVI government, as well as Roy Lester Schneider Hospital, Gov. Juan F. Luis Hospital and Medical Center, Virgin Islands Water and Power Authority, and other governmental agencies and instrumentalities as directed by USVI staff.
- Analyze the USVI's current financial position and debt structure, develop an understanding of potential future cash flows and funding requirements, and provide advice on alternative debt and funding structures. This will include scenarios using USVI staff assumptions as a baseline as well as sensitivity analysis around certain identified assumptions. This will vary depending on the nature of the government instrumentalities, their asset base, cash flows and the purposes for which funding will be used.
- Understand and communicate key elements of the USVI's businesses, component units, and instrumentalities as well as their key cash drivers.
- Understand the USVI's current forecasting processes, including available data for creating a short term cash forecast.
- Advise USVI staff on opportunities to improve liquidity such as: reducing investment in working capital; reducing operating expenses; funding of certain governmental operations; increasing available credit facilities; reducing capital expenditure.



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- Understand and communicate current working capital and cash reporting processes employed at the agency and instrumentality level.
- Advise on different approaches USVI staff may take for dashboard reporting, particularly as it relates to cash reporting.
- Advise USVI on the impact of the cash-to-cash processes on cash forecasting.
- Make observations and comments on improvements that may raise both visibility and confidence in the short term forecasting of cash.
- Perform analysis of the cash flow forecasts and analyze unusual items/variances.

#### **Scope Area #3: Cash Flow Forecasting Tool**

- The purpose of the cash flow tool is to analyze near and long-term cash needs, which will impact the amount and timing of new CDL loans.
- Advise USVI staff on their identification and extraction of relevant data for a cash forecasting tool.
- Advise on an outline specification and design, for approval by USVI staff, for a proposed 13-week and 5-year Cash Forecasting Tool, based on our understanding of the governmental component units and existing cash management processes.
- Provide a Cash Forecasting Tool template for use by USVI staff, based on the specification and design requirements identified through the planning stage above. The Cash Forecasting Tool template will address, among other elements, pro forma cash forecasts using inputs and assumptions provided by USVI staff.
- Advise USVI on their refinement of their Cash Forecasting Tool and related processes, by performing comparative analysis of actual versus forecast cash flow, analyzing unusual items/variance, understanding USVI's revised assumptions with USVI staff and advise on USVI's updating of the forecasting tool, for both 13 consecutive weekly operating cycle and for 5 year horizon.

#### **Scope Area #4: Long-term Forecasting and Fiscal Gap Analysis**

- The purpose of this analysis is to assess the USVI's ability to repay the CDLs with regard to future expenditures and revenues.
- Advise the USVI in its refinement of the government's 5-year forecast of revenues and expenditures, including an assessment of any corresponding fiscal deficit.



- Analyze historical forecasts and advise on the key reasons and root causes driving material variances. Understand the USVI's structure and principal activities as well as reasons for underperformance.
- Analyze USVI's revenue and expense forecast and comment upon the output, base input data and underlying assumptions. Considerations that will be evaluated include, for example, the macroeconomic environment, recent changes in tax law, revenue and expense measures proposed by the USVI, and the USVI's current debt and capital structure.
- Analyze and comment on the analysis of economic conditions and trends.
- Advise USVI staff on the USVI's capital budget, including the estimated timing and amount of disaster funding assumed by USVI staff and its advisors.

**Scope Area #5: Implications from Tax Cuts and Jobs Act of 2017**

- The purpose of this analysis is to assess the fiscal gap and impact USVI's ability to repay the CDLs with regard to future expenditures and revenues.
- Advise USVI staff and applicable advisors on how the output, base input data and underlying assumptions in the government's revenue forecast could be impacted by the Tax Cuts and Jobs Act of 2017. Specifically, estimate static revenue impacts on USVI due to mirroring federal code. EY will analyze JCT scoring and extrapolate potential static revenue impacts on USVI corporate and individual income tax considering composition of corporate tax revenue by industry and composition of individual income taxpayers by household income level for individual income tax.
- Analyze potential economic impacts resulting from (a) new tax rate differential between US and USVI given international provisions, structure of companies operating in USVI, and incentive agreements in USVI and (b) responsiveness to changes in USVI effective tax rate.
- Describe potential mechanisms by which federal tax reform would potentially impact other USVI tax revenue streams (property, excise) and liaise with USVI's applicable advisors to incorporate those changes into their revenue forecasting model. USVI staff agrees to take responsibility for all assumptions upon which the financial forecast is based.
- Critically analyze and provide objective commentary on the government's revenue estimates by conducting, among other things, a top down assessment using publicly available data and published research to determine the to determine the impact on the

Virgin Islands economy and tax revenues of the Tax Cuts and Jobs Act of 2017. This analysis will include, among other things, possible impacts on investment and long-run economic activity due to the federal tax change, holding other factors constant (e.g. other economic conditions).

- Advise USVI staff and applicable advisors as to how projected changes in investment may impact USVI tax revenues, based on the historical relationship of changes in tax revenue and changes in economic activity.

#### **Scope Area #6: Fiscal Plan Response**

- The purpose of this analysis is to assess the USVI's ability to repay the CDLs with regard to future expenditures and revenues.
- Advise the USVI in its revision of the USVI's Five-Year Financial plan for years 2017 through 2021.
- Advise the USVI in the development of various initiatives (revenue, expenditures and debt) that have the potential to better align the revenue profile with the required expenditures.
- Critically analyze and comment on the Government of Virgin Island's profit and loss, cash flow forecasts and balance sheets for the next 13 weeks and 5 years, concentrating on: Methodology used to prepare the forecast(s); Principal assumptions and their vulnerability in light of current market conditions; Key drivers of cash and profit; One off non-recurring items; Corporate tax assumptions; Funding requirements for the USVI's pension schemes; Areas of potential sensitivity identified in management's projections and recommend sensitivity analysis to management; and Illustrated effect of agreed sensitivities on management's projections.
- Based on our analysis of forecasts and projections above and on discussions with USVI staff, comment on additional actions which the government could take to improve cash flow and/or liquidity.

#### **Scope Area #7: Advise on the Implementation of Executive Order 480-2017**

##### **Phase 1: Rapid Finance Assessment – Assess the Current Finance Operating Model**

- The primary purpose of this phase is to:
  - o Capture, analyze and assess existing financial processes, practices and internal controls
  - o Assess the current work environment in which these components operate





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- Identify existing challenges from a people point-of-view, and advise on opportunities for the organization to change
- The work products available at the completion of Phase I will generally include:
  - Process assessments
  - Summary of potential operating model gaps
  - Summary of control weaknesses
  - Advise on Key Performance Indicators (KPI's) and collection of baseline performance data
  - Maturity Models
  - Advise on Change Capability Assessment (at end of first four weeks)
  - High-Level Stakeholder Analysis (at end of first six weeks/phase 1)
  - A communications plan to facilitate participation of select stakeholders in Phase 2 and Phase 3 activities
  - Continuous liaising with the Graduate USA Team and other applicable advisors

#### **Phase 2: Identify Opportunities for Improvement**

- This phase will focus on three objectives:
  - Evaluate the results of Phase I to advise on defining potential process, system and operating model enhancements
  - Review analysis of the current Finance Operating Model to identify opportunities from a business process, controls and technology perspective
  - Identify costs associated with the current financial process and determine how these costs may be reduced based on the opportunities identified

#### **Phase 3: Advise on Definition of Implementation Roadmap & High-Level Business Case**

- A key component of this phase will include a high-level business case that builds a clear case for change within the finance processes and organization. The business case will:
  - Be based on a combination of prioritized improvement opportunities
  - Establish baseline costs mapped against the potential benefits identified through the benchmarking exercise of Phase I
- Work products from this phase will generally include:
  - An implementation roadmap and timeline for the future state processes
  - A high-level business case providing key benefits and cost analyses
  - A communications plan to facilitate basic awareness of the transformation to prioritized stakeholder groups after the project is completed



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#### Phase 4: Advise on Detailed Design

- This phase of work will develop the detailed design of the future state operating model including:
  - o Process and Governance models
  - o Organization charts and work group responsibilities
  - o Updates to impacted job descriptions
  - o Technology enablement requirements definition *(to include a deeper definition of the technology improvements identified in first phase)*
  - o Detailed implementation and transition plan moving forward
- Work products from this phase will generally include:
  - o Training Plan
  - o Consolidated design blueprint
  - o Process definition ("To-Be" process maps, task split)
  - o Policies and procedures documents
  - o Organization design principles
  - o Organization structure (job roles and descriptions competencies and culture)
  - o Recruitment plan

#### Phase 5: Advise on Implementation and Transition Support Needs

##### Staffing & Operating Model

- This phase of work will provide advice on transition support needed to the new staffing and operating model including change readiness, knowledge transfer and training, on-boarding and cutover support.
- Work products from this phase will generally include:
  - o Detailed Implementation Plan
  - o Transition Plan
  - o Transition and Change Management dashboards
  - o Training documentation and support
  - o Procedural documentation

##### Technology & Process



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- This phase may also address the design and implementation of new processes and any enhancements to the system or enabling tools as identified. However, the timing and related cost for technology & process services will need to be evaluated on a case by case basis and agreed upon at a future date. They are not included in the current fixed monthly fee due to this uncertainty.
- Work products from this phase would generally include:
  - o Detailed functional and system requirements
  - o Design documentation
  - o Testing support
  - o Change and project management support

#### **Specific additional terms and conditions**

As it relates to this engagement, USVI will make all management decisions and perform all management functions. The USVI will provide oversight for our work by designating a person or persons to coordinate our efforts with the USVI. Key points of contact within the USVI government will provide leadership, direction, input, oversight, and controls over the process and data. In addition the USVI will evaluate the adequacy and results of the Services performed and accept responsibility for the uses of the results of the Services.

The Services are advisory in nature. EY will not render an assurance report or opinion under the Agreement, nor will the Services constitute an audit, review, examination, or other form of attestation as those terms are defined by applicable professional standards. None of the Services or any Reports will constitute any legal opinion or advice. This service is not in connection with any adversarial, advocacy, litigation or legal proceeding and we will not provide opinions or expert witness testimony. These Services do not constitute an attestation service or involve an evaluation of the reliability or completeness of the historical information obtained. None of the Services or any Reports will constitute any tax opinion or advice. We cannot and do not provide any assurance that our work and findings will either support or contradict any particular position. These services do not constitute an attestation service with respect to projected results of operations. You agree that, because the Services are limited in nature and scope, they cannot be relied upon to discover all documents and other information, or provide all analyses, that may be important to you or any matter.

This Amendment includes the creation of a Cash Flow Forecasting Tool, which consists of the planning, construction, and refinement of a Cash Flow Forecasting Tool for use by USVI staff. You agree to the following provisions as it relates to the Cash Flow Forecasting Tool:

- The tool will not be subject to, or part of, the VIPFA audit.





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- Third-party distribution of information outputs from the Cash Flow Forecasting Tool will be provided on a white paper basis.
- The output of the Cash Flow Forecasting Tool Spreadsheet will not be used by VIPFA staff as a starting point for, or to extrapolate projected cash flows for, the year following the auditor's anticipated audit opinion date.
- It is not appropriate to use the outputs of the Cash Flow Forecasting Tool Spreadsheet or the Spreadsheet itself in the preparation of VIPFA's operating forecasts and VIPFA's operating projections.
- The EY team will not have access to VIPFA's accounting / financial reporting system in any manner different than the audit team obtains / extracts data for audit purposes.
- EY will not act as management of VIPFA, and will not assist with the design and implementation of VIPFA financial system checks, or book-keeping activities.

To the extent sensitized scenarios are developed by EY using assumptions different from those provided by USVI staff, a scenario using USVI staff assumptions will be shown as the base case and the presentation of other scenarios will be identified as a sensitivity analysis around certain identified assumptions, which will be specified.

We have reviewed our available records to determine whether potential conflicts might arise out of our performance of the Services. However, the very nature, diversity, magnitude, and size of the Ernst & Young organization and its past and present professional relationships does not allow us to be certain that each and every possible relationship or potential conflict has come to our attention. If additional relevant relationships or potential conflicts come to our attention, we will promptly notify you. You agree that any EY Firm may provide the Services under this SOW, as well as services to other such parties, as long as (a) no member of the EY team performing these Services (the "EY Team") is part of any team serving other clients in connection with the Matter, and (b) the EY Team does not disclose to any other such team any confidential information relating to you (except as required by applicable law, regulation or professional obligation), in either case without your prior written consent.

If the performance of the Services is challenged on the basis of an alleged conflict of interest or alleged violation of independence requirements, including the requirements of the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder you will promptly notify us, and we may engage our own legal counsel to contest any such challenge.

#### Timetable



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Unless otherwise agreed, and subject to the General Terms and Conditions of the Agreement, we expect to perform the Services, as requested, during the life of the Agreement.

### Contacts

You have identified [REDACTED] as your contact with whom we should communicate about these Services. Your contacts at EY for these Services will be [REDACTED] and [REDACTED]

### Fees

The General Terms and Conditions of the Agreement address our fees and expenses generally.

Given the specialized nature of the services in this Amendment, you agree an equitable adjustment to the Rate Schedule as listed in the Agreement is required. As a result, you agree to pay a fixed monthly fee in a total amount of [REDACTED] per month for the scope of services in this Amendment. If a particular scope of service above is not performed during a given month, the fixed monthly fee will be adjusted downward for that month by an amount agreeable between you and EY.

You also agree the increase total annual fee limitation on page 19 of the Agreement from \$5,000,000 to \$10,000,000 to accommodate the equitable adjustment in the Rate Schedule.

In addition to the fees above, you agree to reimburse EY for its direct expenses incurred in connection with the performance of the Services, which shall include reasonable and customary out-of-pocket expenses for items such as travel (coach airfare and ground transportation), hotel, and meals.

Consistent with the Agreement, invoices will be submitted every 30 days and payment is due net 30 days after receipt of such invoice. Your obligation to pay our fees and expenses is not contingent upon the results of the Services.

In witness whereof, the parties have executed this SOW as of the date set forth above.

Ernst & Young Puerto Rico LLC

[REDACTED]

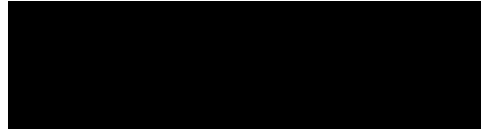
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